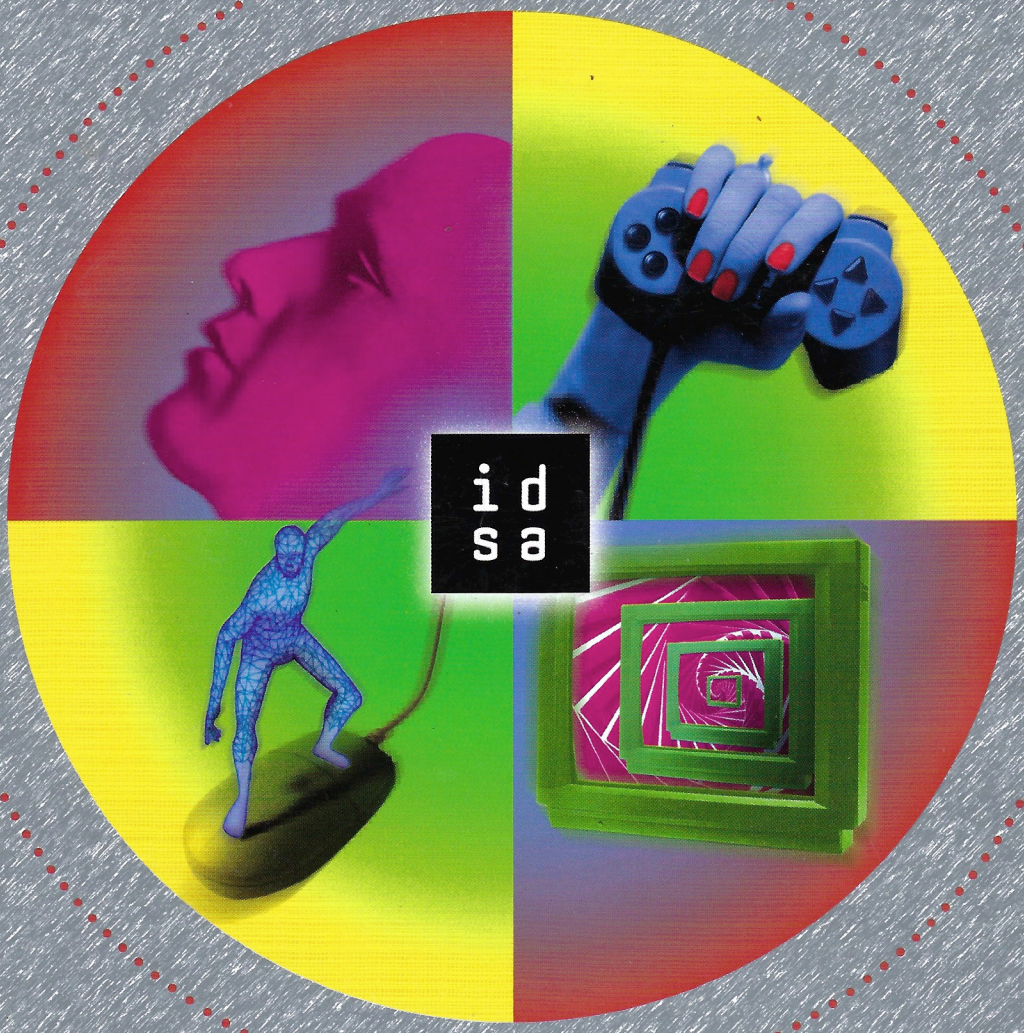
STATE OF THE INDUSTRY

REPORT 2000-2001



INTERACTIVE DIGITAL SOFTWARE ASSOCIATION

LETTER FROM THE PRESIDENT

As we move further into the 21st century, it's clear that the future of entertainment is one in which computer and video games play an increasingly important role in our society - one in which they change the way people live, work and play.

In fact, the years 2001 and beyond are shaping up to be watershed years in the history of interactive entertainment. Leading analysts forecast that video and computer game software sales alone will soon surpass $10 billion, and that the next generation of video game consoles may achieve household penetration rates approaching 70 percent, making them nearly as commonplace in American homes as video cassette recorders. What an astonishing development for an industry once viewed as a niche business for teenage boys.

Looking forward, the new age of interactive entertainment promises a period where computer and video game worlds will be more realistic, where we will see characters capable of engaging our emotions, of making us laugh and cry, of triggering great empathy. Games will do an even better job of creating the illusion of interacting with real people rather than inanimate characters. They will present music and sound not just as background noise, but as devices to create tension or other effects. We will witness the arrival of games where actions are controlled not by joysticks and mouses, but by our own words. Games will soon give players the ability to touch, feel, and even smell real life human sensations while engaged in play.

It all adds up to a future in which the industry will only grow in its capacity to capture the imagination of players with games that involve and engage them, with games that come closer and closer to fully immersing players in their worlds.

The State of the Industry report that follows offers an in-depth look at the computer and video game industry through an overview of current trends, a look back at the industry's history, and a review of the latest statistics and industry initiatives. All of these elements taken together give us a clear picture of where computer and video games are today, and what the future of entertainment will look like tomorrow.

Sincerely,

Doug Lowenstein
President, IDSA

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About the IDSA, its programs and members

"The time has come to take games seriously as an important new popular art shaping the aesthetic sensibility of the 21st century."

Professor Henry Jenkins, Director
Massachusetts Institute of Technology's
Center for Comparative Media Studies
New York Times, October 14, 2000

Did You Know?

Sixty percent of all Americans age six and older, or about 145 million people, play computer and video games.

Brief History

Who would have thought over 25 years ago that computer and video games were going to so dramatically impact popular culture and the entertainment art form around the world? It is amazing that in such a brief time the computer and video game industry has truly revolutionized entertainment. Games now influence films and books, and make use of a wide variety of popular music and licenses. The industry has also produced advanced technology that offers game players a rich, immersive interactive entertainment experience, which many find more compelling than passive art forms like movies and television.

Back in 1975, an agreement between Sears and Atari ignited the growth of the retail video game industry. Sears gained the exclusive rights to sell Pong to the home consumer, and consequently Atari's overall sales reached close to $40 million. This milestone marked just the beginning of what would shortly become the highly profitable and popular computer and video game industry.

1961 – MIT Student creates Spacewar, the first interactive computer game on a mainframe computer. The unit took the entire floor space of a small house.

1966 – Sega Enterprises Ltd. Releases electronic shooting gallery game, Periscope, the first arcade game.

1971 – Magnavox begins developing the Odyssey, a TV plug-in device that plays the tennis game that becomes Pong.

1974 – Atari creates Home Pong launching the home video game industry.

1976 – Apple Computers releases the Apple I computer: the first single-circuit board computer, with a video interface, 8K of RAM and a keypad.

1981 – IBM introduces its personal computer, with Microsoft's 16-bit operating system, MS DOS 1.0.

1983 – Apple releases the "Lisa," the first personal computer to use a Graphical User Interface.

1985 – Commodore-Amiga 1000, the first home multimedia PC with 3D color, sound and games, is introduced.

1985 – Nintendo test markets the eight-bit Nintendo Entertainment System (NES) in New York.

1989 – Sega Enterprises of Japan releases the Genesis in the U.S.

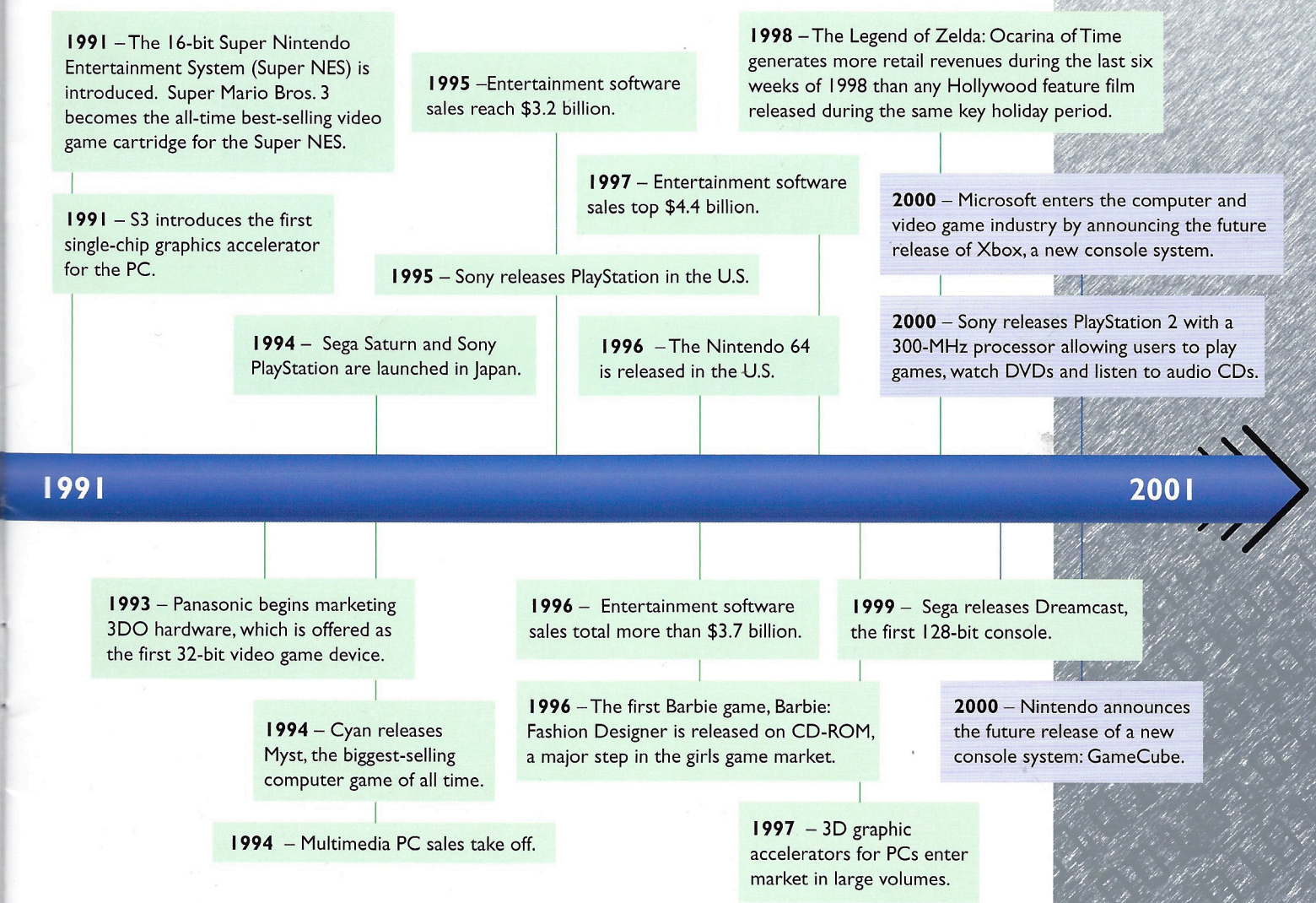
1989 – Nintendo releases the Game Boy, the first portable, hand-held game system.

1990 – Microsoft introduces Windows 3.0 for the PC.

1961 1971 1981

The modern-day video game industry took shape in 1985 when Nintendo introduced the eight-bit Nintendo Entertainment System (NES). Soon thereafter, the 16-bit Sega Genesis was launched, followed by Super NES. In the early 1990s, the PC game business surged with the introduction of CD-ROMs, falling prices for multimedia PCs, and the introduction of high-level 3D graphics cards. In 1995-1996, hungry consumers reacted favorably when Sony PlayStation and Nintendo 64 launched a new generation of video game consoles.

In 1999 and 2000, the computer and video game industry reached unparalleled heights with the introduction of new video game consoles. Sega's Dreamcast was the first 128-bit console and Sony's PlayStation 2 consisted of a 300-MHz processor that allowed users to not only play games, but also watch DVDs and listen to audio CDs. The year 2000 also saw sales in the computer and video game industry reach $6.02 billion.


1991 – The 16-bit Super Nintendo Entertainment System (Super NES) is introduced. Super Mario Bros. 3 becomes the all-time best-selling video game cartridge for the Super NES.
1991 – S3 introduces the first single-chip graphics accelerator for the PC.
1994 – Sega Saturn and Sony PlayStation are launched in Japan.
1995 – Entertainment software sales reach $3.2 billion.
1995 – Sony releases PlayStation in the U.S.
1996 – The Nintendo 64 is released in the U.S.
1997 – Entertainment software sales top $4.4 billion.
1998 – The Legend of Zelda: Ocarina of Time generates more retail revenues during the last six weeks of 1998 than any Hollywood feature film released during the same key holiday period.
2000 – Microsoft enters the computer and video game industry by announcing the future release of Xbox, a new console system.
2000 – Sony releases PlayStation 2 with a 300-MHz processor allowing users to play games, watch DVDs and listen to audio CDs.
1991
2001
1993 – Panasonic begins marketing 3DO hardware, which is offered as the first 32-bit video game device.
1994 – Cyan releases Myst, the biggest-selling computer game of all time.
1994 – Multimedia PC sales take off.
1996 – Entertainment software sales total more than $3.7 billion.
1996 – The first Barbie game, Barbie: Fashion Designer is released on CD-ROM, a major step in the girls game market.
1997 – 3D graphic accelerators for PCs enter market in large volumes.
1999 – Sega releases Dreamcast, the first 128-bit console.
2000 – Nintendo announces the future release of a new console system: GameCube.

Interactive Entertainment Today

Interactive entertainment has definitely arrived. Television and cinema are no longer the sole media for entertainment - the Internet, computers and video games have clearly joined these older passive forms at the center of popular culture today. Where in the past, people gravitated toward linear forms of entertainment, today's mainstream media environment revolves around the theme of interactivity. People today enjoy entertainment they can control, and experiences in which they are fully involved. In fact, computer and video games have been delivering just this type of entertainment to consumers for more than 25 years, and with today's new technologies, the possibilities for interactivity are endless.

Interestingly enough, as computer and video games continue to permeate popular culture, there is more and more crossover with other entertainment genres, such as movies, television and music. Games provide the basis for popular movies such as "Pokemon," "Super Mario Brothers," "Final Fantasy," and "Tomb Raider." Likewise, movies, such as "The Matrix," "Time Code" and "Run Lola Run," use the structure and aesthetics of games to construct compelling story plots. Television has also joined the clamor for interactive entertainment, allowing viewers to participate in shows online and determine plot points and outcomes - similar to the experience of navigating a computer or video game. The sound, lights and feel of the enormously successful television show "Who Wants to Be a Millionaire" clearly are drawn from the video game world, and the game based on the show has proven popular as well.

> "In the century to come, the medium producing the most dynamic, vital, and exciting new art will be...video games. Games will be more entertaining than movies, more profitable than movies, and, yes, more moving than movies. For where the moving image was cinema's bold new advantage over previous media, video games boast interactivity, an even better way to engage the emotions of the audience."
>
> **Seth Stevenson, Newsweek**

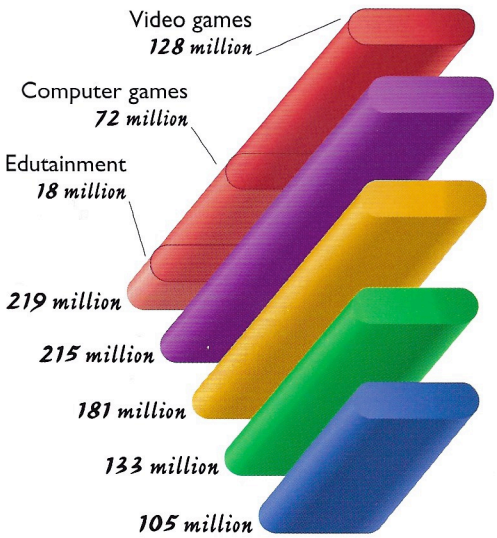
Did You Know?

The average age of a computer and video game player is 28 years.

Industry Growth

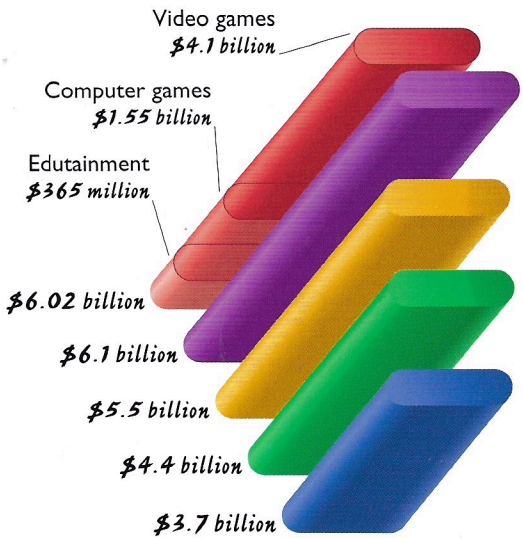
The year 2000 affirmed the durability and maturity of the computer and video game industry. Coming off 1999, a record-breaking year of double digit growth, the industry remained stable during what has become widely known as a "transition year." Unlike previous transition years during which sales have plummeted, sales in 2000 were flat at $6 billion, a strong indicator of the industry's inherent strength. Furthermore, video game rentals also rose in 2000, generating $919 million compared to $880 million in 1999.

The following historical sales figures illustrate the fact that the computer and video game industry has grown at a strong and steady rate, and will undoubtedly continue to do so throughout the next decade.



Computer and Video Game Unit Sales Growth*

- Year 2000
- Year 1999
- Year 1998
- Year 1997
- Year 1996



Computer and Video Game Dollar Sales Growth*

- Year 2000
- Year 1999
- Year 1998
- Year 1997
- Year 1996

*Source: NPD Interactive Entertainment Software Service

Online Game Facts

- 55 percent of IDSA member CEOs said online games are either very or extremely important to their company's business strategy in the next 12 months
- An equal number believe revenues from online games will not exceed 20 percent of their company's revenues until at least 2004

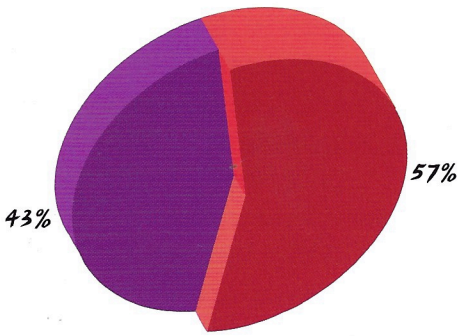
Source: IDSA Annual Member CEO Survey

Did You Know?

Forty-three percent of game players are women.

Demographics

The stereotypical image of a video game player - a teenage boy playing alone for endless hours - is finally fading away as the broadening demographics of computer and video game players become more widely understood. According to a 2000 survey by Peter D. Hart Research Associates, 32 percent of Americans who play computer and video games are age 35 or older, with a remarkable 13 percent age 50 or over. In addition, the study showed that 43 percent of game players are women, and that the average age of these women is 29 years old. ***Overall, the study revealed that 60 percent of all Americans, or about 145 million people, play interactive games on a regular basis.***

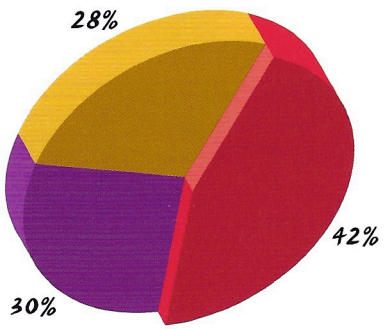


American Computer and Video Game Use By Gender*

- Women
- Men

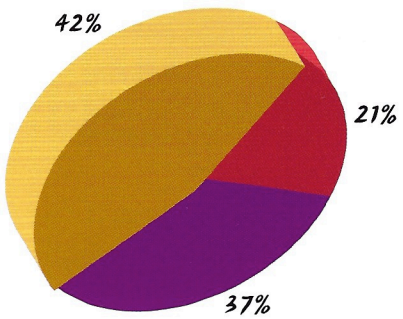
*Source: Peter D. Hart Research Associates 2000 Survey

In addition, the IDSA's 2000 Consumer Survey reveals more details about the ages of computer and video game players.



Most Frequent Computer Game Players**

- Under 18 Years Old
- Between 18 and 35 Years Old
- Over 35 Years Old



Most Frequent Video Game Players**

- Under 18 Years Old
- Between 18 and 35 Years Old
- Over 35 Years Old

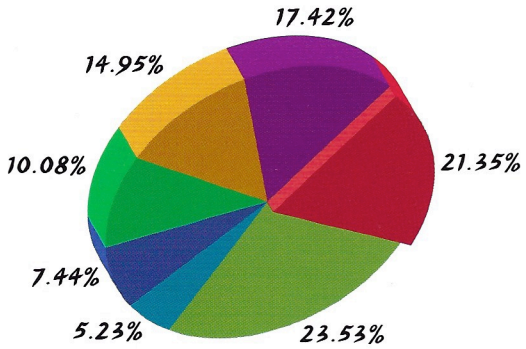
**Source: The IDSA's Annual Consumer Survey

Did You Know?

The vast majority of people who play interactive games do so with friends and family. (Almost 60% of frequent game players play with friends, 33% play with siblings, and about one-quarter play with their spouse and/or parents.)

Games People Play

According to research from The NPD Group, strategy/role playing and action games are still the best selling types of games.

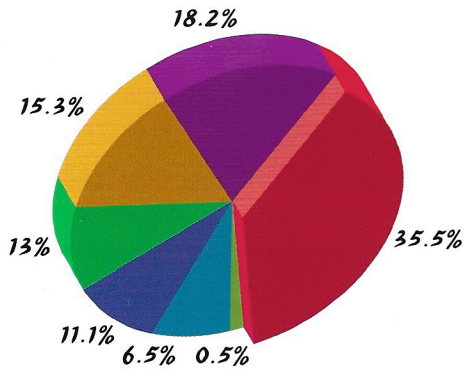


Top Selling Game Genres In 2000*

- Strategy/RPG
- Action
- Sport Games
- Racing
- Family Entertainment
- Children's Entertainment
- All Other Games

*Source: NPD Interactive Entertainment Software Service

When the IDSA polled more than 1,600 households about their views on the most fun entertainment activity, the popular choice by far was computer and video games.



Most Fun Entertainment Activities**

- Playing video/computer games
- Watching television
- Surfing the Internet
- Reading Books
- Going out to the movies
- Renting movies
- Pay-per-view television

The Top Reasons Why Game Players Like To Play Games**

- They are challenging (78.4%)
- They relieve stress (55.1%)
- They provide a lot of entertainment value for the money (48.9%)
- They are a social activity people can enjoy with their friends (37.4%)

**Source: The IDSA's Annual Consumer Survey

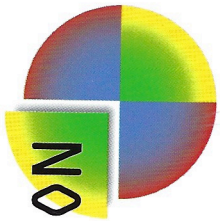
Just How Popular Are Computer And Video Games?

A measure of the enormous popularity of computer and video games can be found in the astonishing fact that about three times as many Americans - or about 145 million people - played computer and video games last year as went to the top five U.S. amusement parks in 1999. In addition, about twice as many played computer and video games last year as attended Major League Baseball games in 1999.

Source: According to Major League Baseball, 70 million people attended MLB games in 1999.
According to Amusement Business, 56.1 million people attended the top five U.S. amusement parks in 1999.

Did You Know?

Computer and video games generated $6.02 billion in sales in 2000 and will continue to show strong growth over the next few years.



Top Games of 2000

Top 20 Best-Selling Video Game Titles Ranked By Units Sold In 2000

	TITLE	PLATFORM	PUBLISHER	ESRB RATING
1.	Pokemon Silver	GBC	Nintendo	E
2.	Pokemon Gold	GBC	Nintendo	E
3.	Pokemon Stadium	N64	Nintendo	E
4.	Pokemon Yellow	GBOY	Nintendo	E
5.	Tony Hawks Pro Skater 2	PSX	Activision	E
6.	Legend of Zelda: Majora's Mask	N64	Nintendo	E
7.	Tony Hawks Pro Skater	PSX	Activision	T
8.	Gran Turismo 2	PSX	Sony	E
9.	Pokemon Blue	GBOY	Nintendo	E
10.	Pokemon Red	GBOY	Nintendo	E
11.	WWF Smackdown	PSX	THQ	T
12.	Tony Hawks Pro Skater	N64	Activision	E
13.	Pokemon Trading Card	GBC	Nintendo	E
14.	Super Mario Bros. Deluxe	GBC	Nintendo	E
15.	Madden NFL 2001	PSX	Electronic Arts	E
16.	Mario Party 2	N64	Nintendo	E
17.	Perfect Dark	N64	Nintendo	M
18.	WWF Smackdown 2	PSX	THQ	T
19.	Final Fantasy IX	PSX	Square EA	T
20.	WWF No Mercy	N64	THQ	T

Top 20 Best-Selling Computer Game Titles Ranked By Units Sold In 2000

	TITLE	PUBLISHER	ESRB RATING
1.	The Sims	Electronic Arts	T
2.	Who Wants to be a Millionaire	Disney Interactive	E
3.	Roller Coaster Tycoon	Hasbro Interactive	E
4.	Diablo 2	Blizzard	M
5.	Who Wants to be a Millionaire 2	Disney Interactive	E
6.	The Sims Livin Large	Electronic Arts	T
7.	Sim Theme Park World	Electronic Arts	E
8.	Age of Empires II	Microsoft	T
9.	Roller Coaster Tycoon: Loopy	Hasbro Interactive	E
10.	Roller Coaster Tycoon: Cork	Hasbro Interactive	E
11.	Slots	Masque Publishing	E
12.	Conquerors F/Age of Empires 2	Microsoft	T
13.	SimCity 3000	Electronic Arts	E
14.	C & C: Red Alert 2	Electronic Arts	T
15.	Sim Mania Pack	Electronic Arts	E
16.	Unreal Tournament	Infogames	M
17.	C & C: Tiberian Sun	Electronic Arts	T
18.	SimCity 3000 Unlimited	Electronic Arts	E
19.	Jumpstart Kindergarten 2	Knowledge Adventure	Not Specified
20.	Frogger	Hasbro Interactive	E

Source: NPD Interactive Entertainment Software Service

Did You Know?

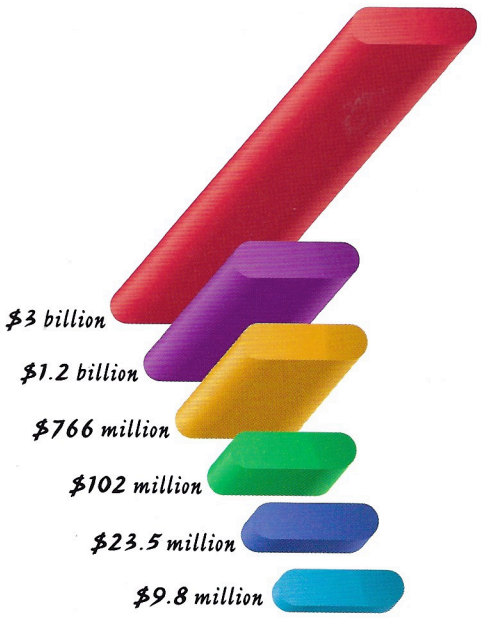
In 2000, over 219 million computer and video games were sold, or almost two games for every household in America.

Worldwide Anti-Piracy Program

The IDSA's Anti-Piracy Program is designed to combat entertainment software piracy both in the U.S. and around the world. Worldwide piracy costs the U.S. entertainment software industry billions of dollars each year. This does not even include Internet piracy or losses in major markets, such as Mexico and Europe.

The IDSA piracy program has three main components: policy work, enforcement, and education. Policy work focuses on domestic and foreign legal and regulatory issues affecting members' intellectual property rights and the market access barriers that member companies face when trying to enter a foreign market. The association also runs an anti-piracy enforcement program in select foreign markets, as well as a domestic enforcement program through the Internet and at computer shows. In 2000, the IDSA filed lawsuits against several Internet pirates, and expects to step up its legal attacks in the coming months. Finally, in terms of educational efforts, the IDSA has developed training materials for U.S. Customs and law enforcement personnel. In addition, IDSA staff educates foreign visitors on our industry and the importance of strong Intellectual Property Rights (IPR) protection around the world. This effort includes training foreign customs agents to identify pirated entertainment software, working with foreign prosecutors on running raids and preparing cases, as well as training judges on IPR.

The cost of worldwide piracy to the industry each year is staggering. The chart below comparing dollars lost to piracy worldwide with money lost due to crimes committed in the U.S. gives a sense of the size of the problem.



Comparison Of Dollars Lost to Crime In 1999

- Computer and Video Game Piracy**
- Residence Burglary*
- Motor Vehicle Theft*
- Shoplifting*
- Bank Robbery*
- Convenience Store Robbery*

**Source: IDSA
*Source: FBI, Crime in the United States, 1999

Did You Know?

All games are rated with age and content information by the Entertainment Software Rating Board (ESRB), and over 70 % of games are rated "E" for Everyone. (For more information, please see www.esrb.org.)

About the Interactive Digital Software Association

The IDSA is the U.S. association dedicated to serving the business and public affairs needs of companies publishing interactive games for video game consoles, handheld devices, personal computers, and the Internet. IDSA members collectively account for more than 90 percent of the $6 billion in entertainment software sales in the U.S. in 2000, and billions more in export sales of American-made entertainment software. The IDSA offers a range of services to interactive entertainment software publishers, including operating a global anti-piracy program, staging the Electronic Entertainment Expo trade show, fielding business and consumer research, and representing the industry at the Federal, State and local levels on a wide range of policy issues.

Entertainment Software Ratings Board

The Entertainment Software Ratings Board (ESRB) is the self regulatory unit of the IDSA. It independently applies and enforces rating, advertising, and privacy guidelines and policies adopted by the industry.

The ESRB rating system is the nation's pre-eminent entertainment software rating system for all platforms. At the end of 2000, the ESRB had rated more than 7,200 titles submitted by more than 350 of the industry's leading publishers. Three independent, trained raters review each title's content and generate a consensus rating in two areas: age appropriateness and, if necessary, content. Among the key elements evaluated are violence, sexual content, language, and early childhood development skills.

In addition, the ESRB, in association with the interactive entertainment software industry, has established the Advertising Review Council of the ESRB ("ARC"). ARC is responsible for the implementation, administration, and enforcement of a self-regulatory system of advertising control for the interactive entertainment software industry. The division's objective is to promote the highest standards of advertising and to provide the interactive entertainment software industry with a system of voluntary principles and guidelines that will assure responsible, appropriate, truthful, and accurate advertising with relation to interactive software products and services. For more information about the ESRB, please visit www.esrb.com.

Early Childhood
Ages 3+

Teen
Ages 13+

Adults Only
Ages 18 and older

Everyone
Ages 6+

Mature
Ages 17+

Rating Pending

Did You Know?

Ninety percent of all games are purchased by adults over the age of 18.

E^3 Expo

Every year, the IDSA presents the highly acclaimed Electronic Entertainment Expo (E^3), the world's most important show dedicated exclusively to the interactive entertainment industry. Wholly owned by the IDSA, E^3 attracts tens of thousands of industry professionals from around the world to see the latest in interactive entertainment software and related products, and to participate in three days of thought-provoking workshops and seminars. For more information, please visit www.e3expo.com

IDSA Foundation

In 1998, the IDSA and its members acknowledged the industry's obligation to collectively step up to support charitable causes by creating an annual fundraiser dinner, "A Nite to Unite for Kids." In 1999, the IDSA made yet another historic step in its endeavor to give back to the community by forming its own foundation. The IDSA Foundation is dedicated to supporting positive programs and opportunities that can make a difference in the lives of America's youth and teens.

Government Relations

The IDSA works with government at all levels to make the voice of its members heard on a wide range of crucial legislative and public policy issues ranging from copyright to First Amendment protection and Internet regulation.

Contact Information

If you would like additional information,
please email **idsa@idsa.com**

Did You Know?

Nineteen of the top twenty best selling games in 2000 were rated "E" for everyone or "T" for teen.

IDSA MEMBERS

Acclaim Entertainment
www.acclaim.com

Activision, Inc.
www.activision.com

Capcom
www.capcom.com

Crave Entertainment
www.cravegames.com

Disney Interactive
www.disneyinteractive.com

Eidos Interactive
www.eidosinteractive.com

Electronic Arts
www.ea.com

Fox Interactive
www.foxinteractive.com

Havas Interactive/Sierra On-Line, Inc.
www.havasinteractive.com

Infogrames North America
www.infogrames.com

Interplay Productions
www.interplay.com

Konami of America, Inc.
www.konami.com

Lego Media International
www.lego.com

LucasArts Entertainment
www.lucasarts.com

Mattel Media, Inc.
www.mattel.com

MGM Interactive
www.mgm.com

Microsoft Corporation
www.microsoft.com

Midway Home Entertainment, Inc.
www.midway.com

Namco Hometek, Inc.
www.namco.com

Nintendo of America
www.nintendo.com

NovaLogic, Inc.
www.novalogic.com

Psygnosis
www.psygnosis.com

Ripcord Games
www.ripcordgames.com

Sega of America Dreamcast, Inc.
www.sega.com

Sony Computer Entertainment America
www.playstation.com

Take 2 Interactive
www.take2games.com

The 3DO Company
www.3do.com

THQ, Inc
www.thq.com

Titus Software Corporation
www.titusgames.com

Ubi Soft, Inc.
www.ubisoft.com

Universal Interactive Studios
www.universalstudios.com

As of February 1, 2001

Did You Know?

In 2000, for the third consecutive year, PC owners say they use their computers more for playing games than for any other application, including word processing, web-surfing, and email.

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